

MBS & TREASURY MARKETS

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MBS Recap: Bonds Circle The Wagons Ahead of High Risk NFP



jon gravitt

Nations Lending

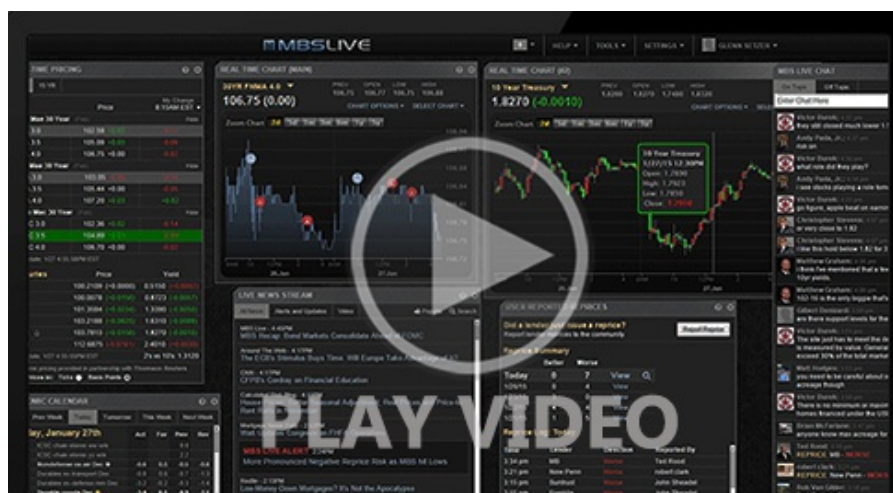
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Bonds Circle The Wagons Ahead of High Risk NFP

MBS Recap | Matthew Graham | 3:39 PM

The consensus for tomorrow's NFP (nonfarm payrolls, the principal component of the big jobs report) is 110k--not much of a downgrade from last month's 139k. The bond market has recently been trading as if it expects to see an even lower number--a fact that's not too surprising given the preponderance of other data that suggests a weaker labor market in June. The latest in that list was today's ADP employment report which completely whiffed (-35k vs 95k f'cast). Bonds initially rallied on that news, but didn't maintain the gains, possibly due to all of the preemptive rallying already in place over the past 2 weeks, and possibly because ADP is notorious for paradoxically diverging from NFP on any given month despite broad long-term correlation. Today's weakness was minimal in the bigger picture and could just as easily be viewed as part of a 2-day process of circling the wagons (pausing and modestly correcting a prevailing trend on the eve of high-consequence data).



Update

8:23 AM Bonds Erasing Overnight Losses After Sharply Weaker ADP

MBS Morning

9:54 AM Bonds Think About Rallying on ADP Data, But Already Getting Cold Feet

3:14 PM

Econ Data / Events

- ○ ADP Employment
 - -33k vs 95k f'cast, 29k prev

Market Movement Recap

08:27 AM slightly weaker overnight but erasing losses after ADP data--at least in the shorter end of the yield curve. MBS now unchanged. 10yr up 4bps at 4.279, but 2yr is down 1.7bps.

09:15 AM Back down to weaker levels. MBS down 5 ticks (.16) and 10yr up 5.3bps at 4.292

12:46 PM Holding at 5 ticks (.16) weaker in MBS. 10yr now up 6.4bps at 4.303

03:10 PM Off the weakest levels in Treasuries with 10yr now up only 4.8bps at 4.288. MBS down an eighth.

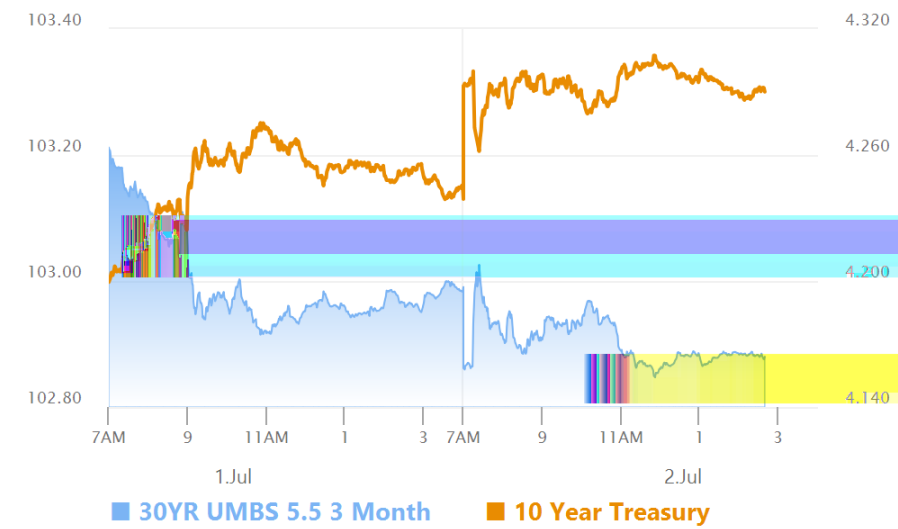
Lock / Float Considerations

- The past two trading sessions have effectively circled the wagons on the trail that has led 10yr yields from 4.4+ on June 20th to 4.2 yesterday morning. Even after accounting for the modest correction, there's still some asymmetric risk heading into Thursday's jobs report. Specifically, a purely as-expected result would still run the risk of pushing rates higher, all other things being equal. Either way, this is a high-consequence installment of the jobs report, with plenty of potential for a reaction in either direction.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.64
 - o 4.48
- Floor/Resistance
 - o 3.99
 - o 4.05
 - o 4.12
 - o 4.19
 - o 4.34
 - o 4.40

MBS & Treasury Markets



MBS

30YR UMBS 5.5
30YR UMBS 6.0
30YR GNMA 5.5
15YR UMBS-15 5.0

US Treasuries

| | | |
|-------|--------|---------|
| 10 YR | 4.290% | +0.051% |
| 2 YR | 3.788% | +0.011% |
| 30 YR | 4.821% | +0.053% |
| 5 YR | 3.871% | +0.031% |

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